

AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA
AND THE GOVERNMENT OF THE
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
REGARDING THE CONSOLIDATION AND RESCHEDULING OF
CERTAIN DEBTS OWED TO, GUARANTEED BY, OR INSURED BY
THE UNITED STATES GOVERNMENT OR ITS AGENCIES

The Government of the United States of America (the "United States") and the Government of the Democratic Socialist Republic of Sri Lanka ("Sri Lanka") agree as follows:

ARTICLE I

Application of the Agreement

1. Taking into account the recommendations contained in the Memorandum of Understanding on the Treatment of the Debt of the Republic of Sri Lanka Due to the Paris Club, signed on June 15, 2005 (hereinafter referred to as the "MOU"), and in accordance with the applicable domestic laws of the United States and Sri Lanka, the United States and Sri Lanka agree to consolidate and defer certain Sri Lankan payments with respect to debts which are owed to the United States Government or its Agencies, as provided for in this Agreement.
2. This Agreement will be further implemented by a separate agreement ("the Implementing Agreement") between Sri Lanka and the United States Department of Agriculture ("USDA") with respect to PL-480 agreements ("PL-480 credits"). With respect to amounts due to the United States Agency for International Development ("USAID"), USAID will notify Sri Lanka of the amounts deferred and rescheduled hereunder, and of the appropriate interest rates.

ARTICLE II

Definitions

1. "Agencies" means the United States Department of Agriculture ("USDA"), and the United States Agency for the International Development ("USAID"), including the Direct Loan ("DL") program.
2. "Contracts" means USAID DL or USDA PL-480 credits which had original maturities of more than one year and which were extended to Sri Lanka, or to Bank Sri Lanka, or covered by their guarantees, pursuant to an agreement or other financial arrangement concluded before January 1, 2005;

Debt service due as a result of debts described above and effected through special payment mechanisms or other external accounts is covered by this Agreement.

A table listing the relevant Contracts to be included under this consolidation and deferral is attached hereto as Annex A.

3. "Consolidated Official Development Assistance (ODA) Debt" means one hundred (100) percent of the sum of unpaid principal and interest, excluding late interest, falling due from January 1, 2005 to December 31, 2005 inclusive with respect to the Contracts specified in paragraph 2 of this Article.

4. "Interest" means interest payable on Consolidated ODA Debt and Capitalized Interest, in accordance with the terms of this Agreement. Interest shall accrue at the rates set forth in this Agreement beginning on the due dates specified in each of the Contracts for the payments of principal comprising Consolidated ODA Debt and on January 1, 2006 for Capitalized Interest.
5. "Capitalized Interest" means one hundred (100) percent of the Interest accruing from January 1, 2005 to December 31, 2005 inclusive, on the outstanding balance of Consolidated ODA Debt in accordance with the terms of this Agreement.
6. "Additional Interest" means interest accruing at the rates set forth in this Agreement and the Implementing Agreement on due but unpaid installments of Consolidated ODA Debt and Interest beginning on the respective due dates for such installments as established by this Agreement and continuing to accrue until such amounts are repaid in full.

ARTICLE III

Terms and Conditions of Payment

1. Sri Lanka agrees to repay the Consolidated ODA Debt in United States dollars in accordance with the following terms and conditions:
 - (a) The Consolidated ODA Debt shall be repaid in seven (7) equal, successive and semi-annual installments, the first one to be made on December 1, 2006 and the last one to be made on December 1, 2009.
 - (b) The rate of Interest on Consolidated ODA Debt shall be as follows for the United States and its Agencies:
 - (i) For USAID DL, the interest rate shall be fixed according to a weighted average at approximately 3.00 percent per year.
 - (ii) For USDA PL-480 credits, the rate of Interest shall be fixed at the weighted average rate of 3.07 percent per year.
 - (c) Interest with respect to Consolidated ODA Debt will be paid on June 1 and December 1 of each year, commencing on December 1, 2006. Interest accruing from January 1, 2005 through December 31, 2005, however, will be capitalized and paid according to the terms and conditions set forth in Article III, paragraph 2.

A table summarizing the amount of Consolidated ODA Debt owed to the United States and its Agencies is attached hereto as Annex B.

2. Sri Lanka agrees to repay Capitalized Interest in United States dollars in accordance with the following terms and conditions:

(a) Capitalized Interest shall be capitalized on December 31, 2005 and paid in seven (7) equal, successive and semi-annual installments, the first one to be made on December 1, 2006 and the last one to be made on December 1, 2009.

(b) The rate of Interest on Capitalized Interest shall be as follows for the United States and its Agencies:

(i) For USAID DL, the interest rate shall be fixed according to a weighted average at approximately 3.00 percent per year.

(ii) For USDA PL-480 credits, the rate of Interest shall be fixed at the weighted average rate of 3.07 percent per year.

(c) The Interest on Capitalized Interest shall be paid in consecutive semi-annual installments on June 1 and December 1 of each year, commencing on December 1, 2006.

A table summarizing the amount of Capitalized Interest owed is attached hereto as Annex C.

3. Consistent with Article V, Paragraph 2 of this Agreement, amounts of Consolidated ODA Debt and Capitalized Interest may be modified by mutual consent.

ARTICLE IV

General Provisions

1. Sri Lanka agrees to pay all Consolidated ODA Debt, Interest, Capitalized Interest, and Additional Interest, if any, to the United States and its Agencies, in United States dollars, without any deductions for taxes, fees or other charges or any other costs accruing inside or outside Sri Lanka.
2. Sri Lanka agrees to pay all debt service due and not paid, which is owed to, guaranteed by, or insured by, the United States or its Agencies, but which is not covered by this Agreement, as soon as possible but no later than September 30, 2005.

Late interest will be charged on these amounts in accordance with the terms of the respective agreements.

3. Sri Lanka agrees to continue to allow unrestricted and immediate access to the foreign exchange required for servicing private sector debts owed to, guaranteed by or insured by the United States or its Agencies.
4. All terms of the Contracts remain in full force and effect, except as they may be modified by this Agreement.
5. With respect to amounts owing to USAID under this Agreement, Sri Lanka (referred to as the "Government" in Annex D hereto) agrees to the additional terms and conditions set forth in Annex D.
6. Sri Lanka commits that resources freed by the Paris Club debt consolidation and deferral will benefit directly the people affected by the tsunami, and that it will document the financial flows for relief and reconstruction spent by Sri Lanka from its own resources that directly benefit people affected by the tsunami. The value of the "resources freed by the Paris Club debt consolidation and deferral" will be calculated by measuring the net present value benefit to Sri Lanka of the Paris Club debt deferral and rescheduling carried out in accord with the MOU and will be the subject of discussions between the United States and Sri Lanka. Sri Lanka also commits to cooperate with an independent, outside evaluation, to be arranged by the United States, of Sri Lanka's compliance with its commitment that resources freed by the Paris Club debt consolidation and deferral will benefit directly the people affected by the tsunami.

ARTICLE V

Suspension or Termination

1. The United States may suspend or terminate this Agreement by giving sixty (60) days written notice to Sri Lanka. If the United States terminates all or part of this Agreement, all payments rescheduled under this Agreement shall be due and payable in accordance with the original terms of the Contracts following notification to Sri Lanka of the United States' exercise of this right of termination.
2. This Agreement may be amended or modified by mutual consent of the United States and Sri Lanka.

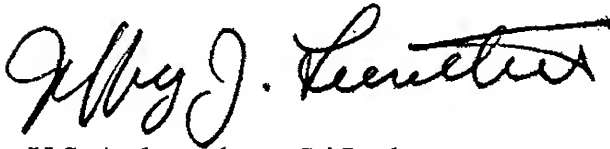
ARTICLE VI

Entry Into Force

This Agreement shall enter into force following signature of the Agreement and receipt by Sri Lanka of written notice from the United States that all necessary domestic legal requirements for entry into force of the Agreement have been fulfilled.

Done at Colombo, Sri Lanka, in the English language, this 30 day of September 2005.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA



U.S. Ambassador to Sri Lanka

FOR THE GOVERNMENT OF
THE DEMOCRATIC SOCIALIST
REPUBLIC OF SRI LANKA



Secretary of the Ministry of Finance
and Planning

Annex A
Contracts Subject to Rescheduling

United States Agency for International Development
Direct Loans

<u>383H014</u>	<u>383T029B</u>
<u>383T015</u>	<u>383T033</u>
<u>383T016</u>	<u>383T033A</u>
<u>383T018</u>	<u>383T036</u>
<u>383T020</u>	<u>383T036A</u>
<u>383T021</u>	<u>383T036B</u>
<u>383T022</u>	<u>383T036C</u>
<u>383T022A</u>	<u>383T037A</u>
<u>383T022B</u>	<u>383T038</u>
<u>383T023</u>	<u>383T038A</u>
<u>383T023A</u>	<u>383T038B</u>
<u>383T023B</u>	<u>383T039</u>
<u>383T024</u>	<u>383U019</u>
<u>383T025</u>	<u>383U019A</u>
<u>383T025A</u>	<u>383U019B</u>
<u>383T028</u>	<u>383U019C</u>
<u>383T028A</u>	<u>383U019D</u>
<u>383T028B</u>	<u>383U019E</u>
<u>383T028C</u>	<u>383U027</u>
<u>383T028D</u>	<u>383U034</u>
<u>383T028E</u>	<u>383U034A</u>
<u>383T028F</u>	<u>383U034B</u>
<u>383T029</u>	<u>383U034C</u>
<u>383T029A</u>	<u>383W032</u>

US Department of Agriculture
PL-480 Agreements Dated / USDA Reference Number

20-Dec-1971	72CE1
23-Nov-1973	74CE1
25-Mar-1975	75CE1
9-Apr-1976	76CE2
29-Oct-1976	77CE1
9-Jan-1978	78CE1
22-Feb-1979	79CE1
18-Mar-1980	80CE1
29-May-1981	81CE1

30-Jun-1982	82CE1
29-Oct-1982	83CE1
28-Sep-1984	84CE1
23-Oct-1985	86CE1
13-Nov-1986	87CE1
3-Dec-1987	88CE1
30-Sep-1988	89CE1
10-Oct-1989	90CE1
31-May-1991	91CE1
17-Mar-1992	92CE1
12-Mar-1993	93CE1
7-Feb-1994	94CE1
13-Jan-1995	95CE1
26-Mar-1997	97CE1
9-Feb-1998	98CE1
22-Aug-2000	00CE1
25-Jul-2001	01CE1

Annex B
Summary of Consolidated ODA Debt
(thousands of US\$)

USDA PL-480	\$ 25,542
USAID DL	\$ 14,460
 TOTAL	 \$ 40,002

Annex C
Summary of Capitalized Interest
(thousands of US\$)

USDA PL-480	\$199
USAID DL (ODA)	\$231
 TOTAL	 \$430

Annex D

ADDITIONAL TERMS AND CONDITIONS WITH RESPECT
TO AMOUNTS OWING TO USAID

A. TERMS AND CONDITIONS OF PAYMENTS

1. Payments. The Government agrees to pay amounts owing to USAID in accordance with the terms and conditions of this Agreement, including this Annex.
2. Funds and Place of Payment. All payments made to USAID by the Government under this Agreement shall be made in United States dollars via electronic funds transfer to the Federal Reserve Bank, 33 Liberty Street, New York, New York 10045. Payment instructions to the Federal Reserve Bank should read:

BNF-/AC-72000001 OBI=(Pay US Dollars _____
Principal _____ Interest _____
Loan Number _____)

3. Application of Payments. To the extent a payment by the Government is insufficient to satisfy the aggregate amount of principal and interest due, such payment shall be applied first to interest then due, with the remainder, if any, applied to the principal amount of the installment.
4. Prepayments. Any prepayments that may be applied to installments of principal shall be applied in the inverse order of their maturity if the rescheduled amounts relate to direct loans and in chronological order if the rescheduled amounts relate to obligations under the housing guaranty program.
5. Payments due on non-business days. In the event that a payment is due on a day when the Federal Reserve Bank of New York is closed for business, the payment shall be made on the next succeeding business day. This extension of time shall be included in computing the interest on such payment and excluded from the following interest period, if any.

B. INTEREST

1. Computation of Interest. Interest shall be computed on the basis of the actual number of days elapsed, using a 365-day year.

C. GENERAL PROVISIONS

1. Adjustments. Following the execution of this Agreement, USAID shall inform the Government of the actual amounts to be rescheduled hereunder, provide a repayment schedule of those amounts, and notify the Government of the actual applicable interest

rate(s). The parties hereto agree to make any necessary adjustments to the amounts being rescheduled under this Agreement and such amounts may be further adjusted, from time to time, as the parties may mutually agree.

2. Communications. All communications between the Government and USAID shall be in writing in the English language (or accompanied by an accurate translation). All communications to the Government shall be addressed as the Government may designate from time to time in writing to USAID. All communications to USAID shall be addressed as follows:

Chief
Office of Financial Management, Loan Management Division (FM/LM)
USAID
1300 Pennsylvania Avenue, N.W.
Room B-3.06
Washington, D.C. 20523
Fax: (202) 216-3541

USAID may change this designated address upon written notice to the Government.

3. Authorized Representatives. The Government shall designate in writing duly authorized representatives permitted to perform any and all actions required under this Agreement and may change its designated representatives by written notice to USAID. USAID may accept the signature of such representatives on any instrument as conclusive evidence that any such action effected by such instrument is authorized by the Government until receipt of written notice of revocation of their authority.

4.a. Event of Default. The failure by the Government to make full payment of any installment when due under this Agreement shall be deemed to be an event of default. Upon the occurrence of an event of default, USAID, at its option, may declare all or any part of unpaid principal and all accrued interest thereon to be due and payable immediately. If the Government pays the defaulted installment, including any Additional Interest which has accrued thereon, within sixty (60) days of the any such declaration, the declaration of an Event of Default will be deemed to have been rescinded.

b. Waivers of Default. No delay in exercising, or omission to exercise, any right accruing to USAID under this Agreement shall be construed as an acquiescence or waiver by USAID of any such right.

5. Notification and Confirmation. USAID will, to the maximum extent practicable, notify the Government of payments due at least fifteen (15) days prior to the due date of each payment. Failure to provide such notice, however, does not excuse failure to make payment when due.

6. Governing Law. The USAID portion of this Agreement will be governed by and construed in accordance with the laws of the District of Columbia, United States of America.

7. Expenses. The Government shall reimburse USAID, upon demand, for all reasonable and documented expenses (including legal fees) incurred by or charged to USAID in connection with or arising out of enforcement of this Agreement.